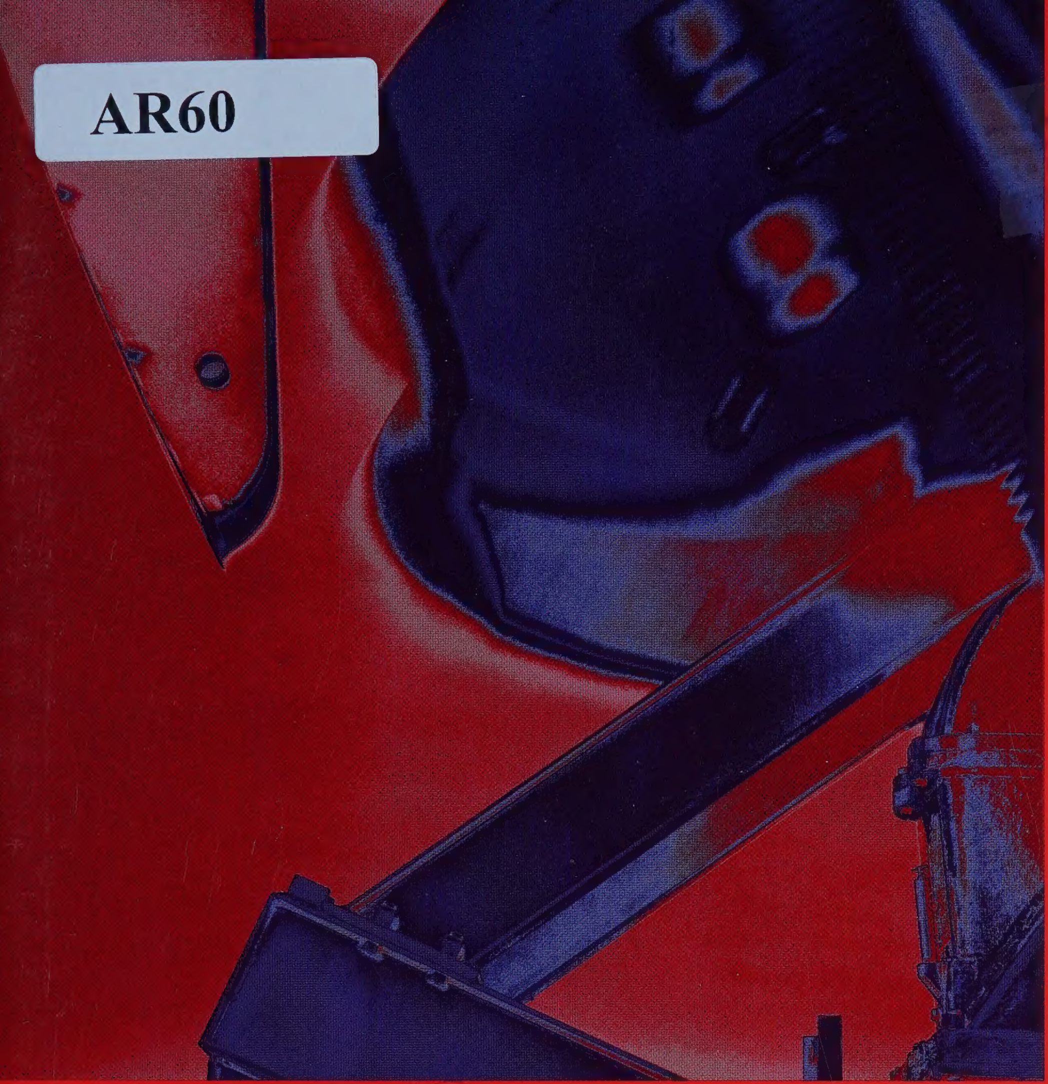

annual report 2000

LEXXOR

ENERGY INC.

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CORPORATE PROFILE

Lexxor Energy Inc. is a Calgary based junior oil and gas company engaged in acquisition, exploration, development and production with operations in Western Canada. Lexxor has a dedicated and experienced management team committed to creating and maximizing shareholder value through a combination of internally generated exploration and development prospects and the acquisition of oil and gas assets. Lexxor manages risk by maintaining an inventory of drillable prospects and utilizes geological, geophysical and drilling technology in an environmentally responsible manner.

Shares of Lexxor Energy Inc. trade on the Canadian Venture Exchange under the symbol LXX.A.

FORWARD-LOOKING STATEMENTS

Corporate information provided herein contains forward-looking statements. The reader is cautioned that assumptions used in the preparation of such information, which are considered reasonable by Lexxor Energy Inc. at the time of preparation, may be proved to be incorrect. Actual results achieved during the forecast period will vary from the information provided and the variations may be material. There is no representation by Lexxor Energy Inc. that actual results achieved during the forecast period will be the same in whole or in part as those forecast.

SHAREHOLDER'S MEETING

The Annual and Special Meeting of Shareholders of Lexxor Energy Inc. will be held on Wednesday, May 9, 2001 at 2:30 p.m. (Calgary time) in the Bow Valley Conference Centre on the 3rd Floor, 205 – 5th Avenue S.W. Calgary, Alberta.

ABBREVIATIONS

ARTC	Alberta Royalty Credit
Bbls	barrels
/d	per day
MBbls	thousand barrels
Bopd	barrels of oil per day
GJ	gigajoule
Mcf	thousand cubic feet
MMcf	million cubic feet
Bcf	billion cubic feet
Boe	barrels of oil equivalent (1)
MBoe	thousand barrels of oil equivalent (1)
Mstb	thousand stock tank barrels
NGLs	natural gas liquids
$M	thousands of dollars

(1) Natural gas is equated to oil on the basis of 6 Mcf of natural gas = 1 barrel of oil equivalent (Boe)

2000 HIGHLIGHTS

As at and for the years ended December 31 FINANCIAL ($, except for share numbers)	2000	1999	Percent Change
Petroleum and natural gas sales	6,631,886	1,806,809	267
Net earnings	1,339,596	14,588	9,083
Per share - basic	0.04	0.00	–
Per share - fully diluted	0.04	0.00	–
Cash flow	3,110,096	357,138	770
Per share - basic	0.10	0.02	400
Per share - fully diluted	0.09	0.02	350
Capital expenditures and acquisitions	13,978,271	2,606,614	436
Proceeds on sale of properties	(453,500)	(2,195,346)	(80)
Net capital expenditures and acquisitions	13,524,771	411,268	3,189
Working capital (deficit)	(1,537,957)	(772,989)	99
Bank debt	3,100,000	850,000	265
Shareholders' equity	10,190,774	1,044,570	876
Total assets	21,094,864	3,875,063	444
Weighted average shares outstanding	30,838,727	18,726,634	65
Outstanding as of March 19, 2001			
Class A Shares	49,386,381		
Warrants @ $0.30 until June 30, 2001	3,717,209		
Warrants @ $0.60 until June 30, 2002	4,037,567		
Stock options	3,430,000		

OPERATIONS			
Production			
Natural gas (Mcf/d)	1,696	1,151	47
Oil and NGLs (Bbls/d)	211	79	167
Total Boe/d (1)	494	271	82
Established reserves (2)			
Natural gas (MMcf)	5,993	3,203	87
Oil and NGLs (MBbls)	1,654	631	162
Total MBoe (1)	2,653	1,165	128
Present value of established reserves (discounted at 15 percent before tax)	$ 24,888,000	$ 5,327,000	367
Wells drilled			
Gross	18.0	8.0	125
Net	10.5	3.7	184
Land holdings			
Gross acres	75,599	54,785	38
Net acres	30,066	19,218	56

(1) Natural gas is equated to oil on the basis of 6 Mcf of natural gas = 1 barrel of oil equivalent (Boe)

(2) Established reserves are defined as proven reserves plus probable reserves risked at 50%

PRESIDENT'S MESSAGE

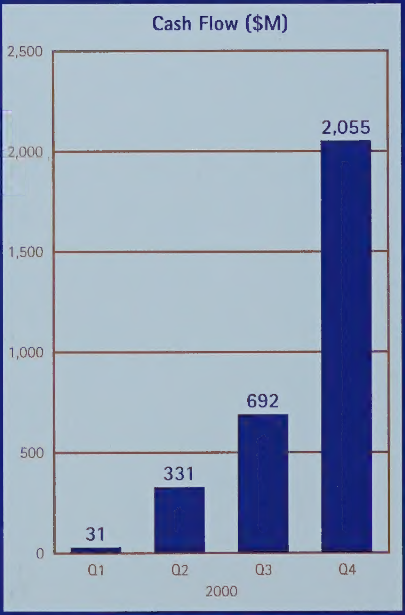
Lexxor's acquisition, exploration and development strategies during 2000 continued to position the Company for sustained growth and profitability. We are pleased to report that substantial gains were realized in all of the Company's operations, generating record results.

2000 WAS A YEAR THAT PROVED THE STRATEGIES IMPLEMENTED BY LEXXOR ARE GENERATING SUBSTANTIAL GROWTH

At the end of 1999, Lexxor's goal was to exit 2000 at a production rate of 500 Boe/d (10:1) and achieve annual cash flow of $2.5 million with our capital expenditures budget of $2.5 million. Actual results proved to be an exit rate of 1,057 Boe/d (10:1) and annual cash flow of $3.1 million. Capital spending of $13.9 million was significantly higher than forecast due to additional opportunities that were presented throughout the year. We have succeeded in adding value for our shareholders during 2000.

ACHIEVEMENTS:

- Recorded a 414 percent production increase from a first quarter 2000 average rate of 243 Boe/d, exiting the year at 767 barrels of oil and NGLs per day and 2,900 thousand cubic feet of natural gas per day for a total of 1,250 Boe/d (6:1);
- Increased established reserve value (PV15 before tax) to $24.9 million from $5.3 million;
- Increased net asset value per share by 69 percent to $0.44 from $0.26;
- Participated in eighteen wells for an overall success rate of 85 percent. The Company maintained an average 58 percent working interest and was the operator of eleven of the wells;
- Discovered a new Dina Oil Pool at Neutral Hills, Alberta adding 250 Bopd from two wells, 75 Bopd from a third well (February 1, 2001) and established numerous development drilling locations;
- Established a significant core area in southeast Saskatchewan through two corporate acquisitions and a five well drilling program at Antler, Saskatchewan;
- Achieved record financial results. Fourth quarter 2000 cash flow of $2.06 million was greater than the combined quarterly cash flow for the previous 12 quarters. Net earnings for the year increased 92 fold to $1.34 million, a record high for Lexxor;

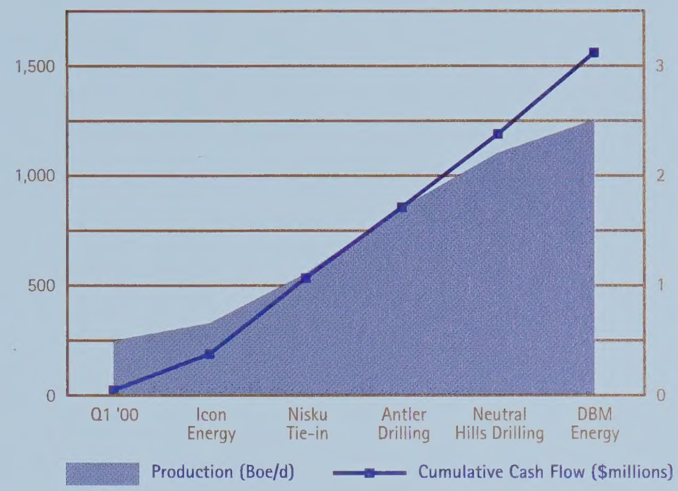


- Maintained a strong balance sheet, ending the year with a debt to cash flow ratio of 0.6 times 4th quarter annualized cash flow;

- Raised $2.8 million towards our exploration program through the sale of flow-through shares;

- Issued a total of $4.7 million of new equity to acquire Icon Energy Limited, DBM Energy Inc. and oil and gas assets in the Taber and Berry Creek areas of Alberta.

Rapid Development of Production / Cash Flow



These achievements were made possible through the acquisition of oil and gas corporations, acquisition of assets complementary to Lexxor's core areas, and an active exploration and development program carried out by a talented group of employees and contractors. These activities, combined with strong commodity prices, resulted in increased shareholder value with substantial increases in reserves, production, cash flow, and net earnings.

PEOPLE:

Lexxor welcomed the addition of Larry Nachshen and Carl M. Ravinsky to the Board of Directors during 2000. New management and technical expertise was also added during the year with the appointment of B. Cameron Dawes, Vice President Exploration, Dwight T. Ostrosser, Vice President Land, and Paul I. Murynka, Senior Geologist.

In order to support the accelerated growth of the Company, and because highly qualified people became available in a competitive market, three senior geologists and a senior geophysicist were hired in 2001. Michael Ziegler, Stephen Lamb and Fred Pember all have extensive geological experience in the Western Canadian Sedimentary Basin and Brian Sondergaard will complement the team with his 15 years of geophysical experience. With the expansion of our exploration group and the addition of engineering, land, and accounting staff, our technical team is capable of generating significant new prospects and growth opportunities.

OUTLOOK:

Prospects for the future of Lexxor Energy Inc. have never been as strong as they are today. Our employees have demonstrated their capabilities and have proven to be committed to the success of the Company.

It is our intention to reach 3,000 Boe/d of production by July 1, 2002. This production level will be derived from Lexxor's two existing core areas of southeast Saskatchewan and east central Alberta and the development of a new core area in west central Alberta.

On March 16, 2001, Lexxor closed a $4.5 million acquisition of reserves, production and undeveloped lands in the Redvers area of southeast Saskatchewan from Talisman Energy Inc. This purchase provides significant opportunities towards our goal to reach 1,000 Boe/d in southeast Saskatchewan. With our Neutral Hills, Alberta oil development project and further exploratory work in east central Alberta, 1,000 Boe/d is within reach in this second core area. The third core area, emphasizing a natural gas focus is already in the planning stages with several prospective properties under review.

Lexxor is strongly positioned to deliver record levels of growth in production, cash flow and net earnings again in 2001. This will be accomplished while maintaining effective cost controls within a manageable level of debt. Our capital expenditures budget for 2001 is $14 million for acquisition, exploration and development activities. We have a growing inventory of drilling prospects and expect to participate in a minimum of 32 locations at an average 50 percent working interest this year. The capital program will be funded by cash flow, which is expected to be $12.3 million ($0.25 per share), as well as credit facilities. With bank debt projected to be approximately $4 million at year-end 2001, the Company will continue to maintain a conservative debt-to-cash flow ratio.

The ability of Lexxor to capitalize on its prospects is contingent on many factors, the most important of which is cash flow. Our cash flow estimate of $12.3 million for 2001 assumes average daily production of 1,700 Boe/d (6:1), an average oil and NGLs price of Cdn $37.65 per Bbl and natural gas averaging $7.00 per Mcf. Based on a $14 million capital budget, we expect to exit 2001 at a production rate of 2,300 barrels of oil equivalent per day.

ACKNOWLEDGEMENTS:

We wish to express our appreciation to all our employees, customers, business partners and shareholders for their continued support. We also acknowledge the Board of Directors for their guidance and advice to management during 2000.

On behalf of the Board of Directors

Douglas O. McNichol,
President & Chief Operating Officer
March 19, 2001

STAFF & CONSULTANTS

Al Bamsey
Lara Bec
Kelly Brown
Jack Brown
Ilona Campbell
Cam Dawes
Joan Erwin
Mike Ferris

Gordon Ironside
Steve Lamb
Carla Lawrence
Paul Lawrence
Doug McNichol
Paul Murynka
Monica Nunn
Dwight Ostrosser

Fred Pember
Hazel Pouliot
Damien Rowe
Anna Saskiw
Brian Sondergaard
Tina Thring
Darlene Zeck
Mike Ziegler

Lexxor intends to adhere to its growth strategies during 2001 by aggressively targeting acquisitions, generating exploration prospects and exploiting these opportunities to their full capacity.

OPERATIONS REVIEW

Lexxor's growth strategies proved to be very successful during 2000. The Company's capital expenditure program, including corporate and property acquisitions totaled $13.9 million. The acquisition of corporations and assets, followed by Lexxor's development and a successful eighteen well (10.5 net) drilling program, resulted in average production for 2000 of 494 Boe/d (6:1), an increase of 82 percent

DURING 2000, LEXXOR DEMONSTRATED THE ABILITY TO ACQUIRE UNDERDEVELOPED ASSETS AND EXPLOIT THEM TO GENERATE GROWTH

over average production of 271 Boe/d in 1999. During the fourth quarter of 2000, Lexxor continued to build on the exploration and development activities undertaken during the year, resulting in an exit production rate on December 31, 2000 of 1,250 Boe/d. Production and reserve increases were primarily attributable to:

- The acquisition of Icon Energy Limited in April 2000 and the development of the Antler, Saskatchewan property by drilling five (4.75 net) light oil wells;
- The acquisition and re-interpretation of a three dimensional seismic data survey under a review option and the drilling of three (3.0 net) exploratory wells, resulting in a new oil discovery at Neutral Hills, Alberta producing at a rate of 250 barrels of light crude oil per day at December 31, 2000;
- The addition of exploration personnel, including a senior geologist in April and a Vice President, Exploration in June. In February 2001 the Company added three senior geologists and a senior geophysicist to its exploration team;
- Ongoing adherence to the acquisition, exploration and development strategy through the addition of a Vice President, Land in August 2000, providing the experience required to maintain a 50% average working interest with joint venture partners, and the continuation of the development of new opportunities for Lexxor.

Lexxor intends to adhere to its growth strategies again during 2001 by aggressively targeting acquisitions, generating exploration prospects and exploiting these opportunities to their full capacity.

This production will come from three core areas. The first core area of southeast Saskatchewan, developed during 2000, is a result of a corporate acquisition and the subsequent exploration and development of the Antler, Saskatchewan property.

Lexxor expects an 85% increase in production during 2001, exiting the year at 2,300 Boe/d.

The second core area of east central Alberta, an original area of operations for the Company, was expanded through the talent of our exploration personnel. At Neutral Hills, a seismic rework option combined with the drilling of three exploratory locations resulted in an exciting Dina oil discovery with considerable upside potential.

Lexxor has demonstrated its technical expertise and is pursuing opportunities to establish a third "gas prone" core area. Several prospective properties are currently under review.

CORPORATE ACQUISITION AND SUBSEQUENT DEVELOPMENT CREATES SIGNIFICANT CORE AREA

SOUTHEAST SASKATCHEWAN:

The acquisition of Icon Energy Limited added 80 Boe/d to Lexxor's production base effective April 3, 2000. During the second quarter of 2000, Lexxor directed its funds and attention to the development of Icon's properties.

In early June, Lexxor tied-in two Icon gas wells at Nisku, Alberta at rates of 2.3 MMcf/d (1.5 MMcf/d net), resulting in a significant increase in Lexxor's natural gas production.

At Antler, Saskatchewan, five oil wells were reactivated and flowlined to the central battery. Additional water handling and disposal facilities were installed to increase overall capacity for our subsequent drilling program.

The reprocessing of a 3-D seismic survey identified five separate structurally-closed Mississippian features that were drilled in the third and fourth quarters of 2000. All of the wells drilled were successfully "barefoot" completed and produced clean 36^{0} API oil on penetration.

In December 2000 Lexxor acquired DBM Energy Inc., increasing the Company's working interests at Antler to 95%.

Exploration and development of the Antler property, including the DBM Energy Inc. acquisition, resulted in exit production of 430 Bopd, up significantly from 59 Bopd on April 3, 2000.

Subsequent to year-end, Lexxor drilled a Mississippian oil well at Antler that is now on production and the Company intends to drill three additional wells within its 3,082 net acres of undeveloped land. A large undrilled structure appears at depth as a Winnipegosis reef draped by both Birdbear and Bakken zones that may be evaluated at a future date. Lexxor is also planning a 27 square mile seismic acquisition during 2001 to further delineate both Mississippian and deeper structures.

ANTLER, SASKATCHEWAN

In proximity to Lexxor's Antler, Saskatchewan property, the Company acquired oil reserves and production at Ingoldsby effective July 1, 2000. This acquisition added approximately 89,000 barrels of proven oil reserves and 70 Bopd (35 Bopd net) of oil production. During the fourth quarter of 2000, Lexxor upgraded the 50% owned oil battery. In February 2001, Lexxor re-entered a marginal horizontal oil well and drilled two new horizontal legs into a more productive interval.

ASSET ACQUISITION AND SUBSEQUENT DEVELOPMENT RESULTS IN OIL DISCOVERY

On March 16, 2001, Lexxor closed the acquisition of reserves, production, and undeveloped land in the Redvers area of southeast Saskatchewan for $4.5 million. Two dimensional and three dimensional seismic was also acquired and is currently being interpreted over an area encompassing 87,000 net acres. Management believes that this acquisition will provide additional opportunities for Lexxor to reach its target production rate of 1,000 Boe/d in its core area of southeast Saskatchewan.

EAST CENTRAL ALBERTA:

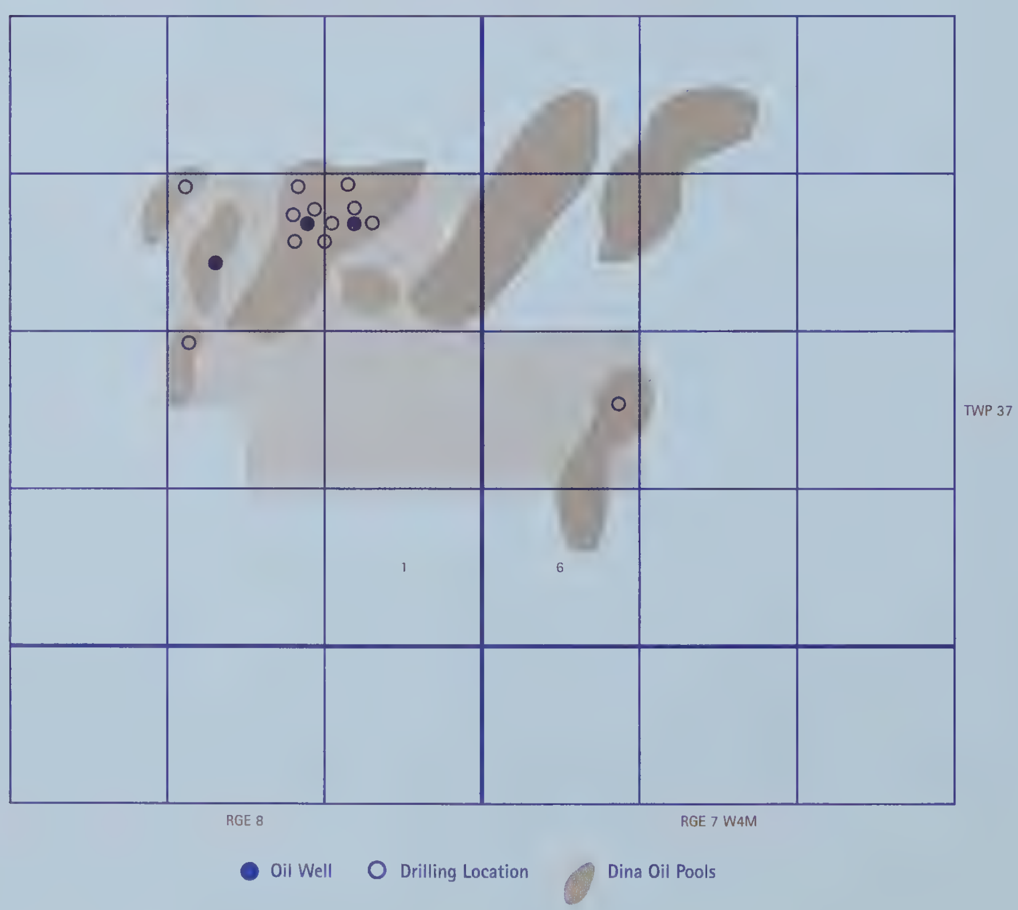
In July 2000 Lexxor acquired a seismic review option and re-interpreted an extensive three dimensional seismic database at Neutral Hills/Provost, Alberta. This property falls within Lexxor's existing east central Alberta core area.

As a result of a farm-in and option agreement encompassing approximately 3,000 acres, Lexxor committed to drill an exploratory well to evaluate Dina oil potential. The well encountered a 7 metre column of oil in the Dina formation and produced 75 barrels of 30 degree API crude oil in a 9 hour period. The well was placed on production in mid-October.

This exciting new oil pool discovery resulted in the drilling of a second successful well that commenced production on November 1st and a third well that commenced production on February 1st, 2001. On December 31st, 2000 the first two wells contributed 250 Bopd of production to Lexxor's exit production rate of 1,250 Boe/d (6:1). A third party reserve evaluation assigned recoverable reserves to these three wells in the order of 80,000 barrels per well.

Lexxor's interest in the three wells drilled is 100% until payout. After payout, Lexxor will retain a 55.2% interest in the wells. The 2000 drilling program at Neutral Hills allowed Lexxor to earn interests in 960 gross acres. During 2001, Lexxor intends to drill two further exploratory earning wells on the option lands and ten or more infill development wells in the discovery pool on reduced spacing. A seismic review option to the northwest will also add to the exploratory expansion of this prospective area.

NEUTRAL HILLS, ALBERTA



In August 2000, Lexxor acquired working interests in two producing wells at Berry, Alberta and a shut-in gas well at Taber, Alberta. The Company is currently working with the operator of the facilities in

the vicinity of the shut-in gas well and, pending access to surface right of way, may bring this well on stream late in 2001. The Company is drilling a well at Berry to test a seismic anomaly on acquired lands.

EXPLORATION EXPECTED TO CREATE THIRD CORE AREA

The Company is ambitiously engaged in defining and establishing a third "gas prone" core area for 2001. In February 2001, Lexxor added three senior geologists and a geophysicist to its technical group. To date, specific prospects have been defined for drilling and other prospective properties are under review.

DRILLING:

Lexxor participated in the drilling of eighteen (10.5 net) wells during 2000, of which eleven (5.5 net) wells were exploratory and seven (5.0 net) were development wells. Lexxor was the operator of eleven of these wells. The drilling program, with average working interests of 58%, resulted in two (0.4 net) gas wells, eleven (8.5 net) oil wells and five (1.6 net) dry holes for an overall success rate of 85%.

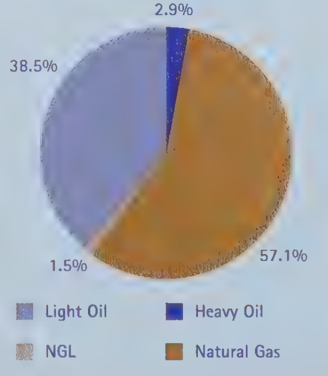
During 2001, Lexxor expects to participate in a minimum of 32 drilling locations at an average 50 percent working interest.

PRODUCTION:

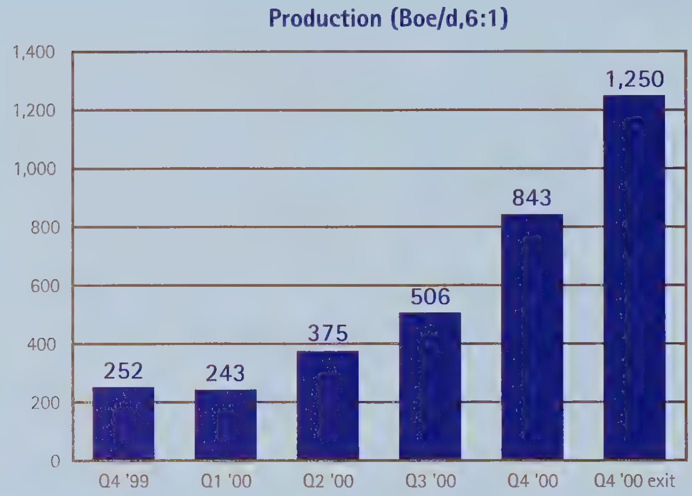
Lexxor produced 1,696 Mcf/d of natural gas and 211 Bbls/d of crude oil and NGLs during 2000 resulting in an average of 494 Boe/d (sales) for the year (6:1). The majority of the Company's eighteen well drilling program were drilled during the third and fourth quarters, resulting in year-end production of 2,900 Mcf/d of natural gas and 767 Bbls/d of crude oil and NGLs for a total of 1,250 Boe/d.

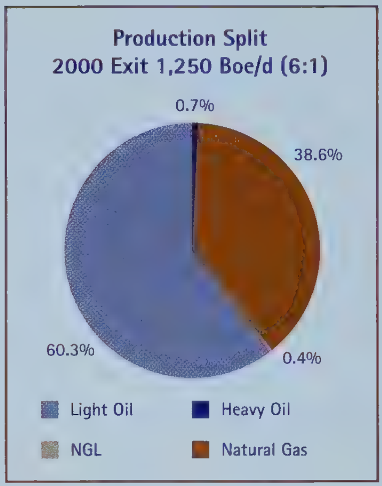
Lexxor's production split during 2000 averaged approximately 57 percent natural gas and 43 percent crude oil and NGLs (6:1). At year-end, Lexxor's production split was 39 percent natural gas and 61 percent crude oil and NGLs. Crude oil's share of the production split increased as a result of our significant additions in the latter part of the year.

Production Split
2000 Average 494 Boe/d (6:1)



At year-end 2000, approximately 60 percent of Lexxor's production was located in Alberta with the balance located in Saskatchewan.





LAND:

As of December 31, 2000, Lexxor held interests in 61,158 gross (21,131 net) acres of land in Alberta and 14,441 gross (8,935 net) acres of land in Saskatchewan for a total of 75,599 (30,066 net) acres of land, an increase of 56 percent over 1999. As of December 31, 2000 Seaton-Jordan and Associates placed a value of $1.39 million on Lexxor's undeveloped lands. As a result of the acquisition of Icon Energy Limited and DBM Energy Inc., Lexxor's land in Saskatchewan increased by 222% to 8,935 net acres from 2,777 net acres in 1999.

LAND HOLDINGS (ACRES)

	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
ALBERTA						
As at December 31, 1999	10,960	3,647	38,760	12,794	49,720	16,441
As at December 31, 2000	**20,502**	**7,938**	**40,656**	**13,193**	**61,158**	**21,131**
% Change Alberta	87	118	5	3	23	29
SASKATCHEWAN						
As at December 31, 1999	889	419	4,176	2,358	5,065	2,777
As at December 31, 2000	**3,111**	**1,978**	**11,330**	**6,957**	**14,441**	**8,935**
% Change Saskatchewan	249	372	171	195	185	222
TOTAL December 31, 1999	11,849	4,066	42,936	15,152	54,785	19,218
TOTAL December 31, 2000	**23,613**	**9,916**	**51,986**	**20,150**	**75,599**	**30,066**
% Total Change	99	144	21	33	38	56

RESERVES:

During 2000, Lexxor increased its total established reserves, after production, by 128 percent to 2,653 MBoe from 1,165 MBoe (6:1) in 1999. Proven plus probable reserves totaled 3,124 MBoe, up from 1,327 MBoe in 1999. This growth in reserves replaced 2000's annual production of 180.3 MBoe by 10 times (proven increase: 6.5 times production). Lexxor's reserves were independently evaluated by Chapman Petroleum Engineering Limited. The present value of Lexxor's established reserves, discounted at 15 percent before tax, increased 367 percent from $5.3 million at the end of 1999 to $24.9 million ($28.9 million @ 10%) as a result of increased reserves and higher forecasted product pricing. Lexxor's 2000 year-end proven reserve value represented 84 percent of its total established value.

PRESENT VALUE OF RESERVES

				PRESENT VALUE CASH FLOW			
As of January 1, 2001	Oil	Gas	NGLs	PW(0)	PW(10)	PW(15)	PW(20)
Escalating Economics	(Mstb)	(MMcf)	(Mstb)	($M)	($M)	($M)	($M)
Proven producing	905	4,194	45	30,451	18,796	16,165	14,319
Proven non-producing	42	1,360	34	4,425	2,705	2,315	2,042
Proven undeveloped	215	91	0	3,697	2,805	2,481	2,213
Total proven	1,162	5,645	79	38,573	24,306	20,961	18,574
Probable additional	827	696	0	14,521	9,211	7,854	6,834
Total proven and probable	1,989	6,341	79	53,094	33,517	28,815	25,408
50% reduction for risk	(414)	(348)	0	(7,261)	(4,606)	(3,927)	(3,417)
Risked proven and probable	1,575	5,993	79	45,833	28,911	24,888	21,991

Changes in reserves are outlined in the Reserve Continuity Summary. Lexxor was successful in adding oil reserves primarily through drilling at Antler, Saskatchewan and Neutral Hills, Alberta and gas reserves at Court, Saskatchewan and Antelope, Alberta. Significant amounts of oil and gas reserves were acquired through the Icon and DBM transactions. Reserves were also acquired in oil and gas asset purchases at Taber and Berry Creek, Alberta and Ingoldsby, Saskatchewan. Positive revisions to our gas reserves were booked for our liquids-rich gas well at Garrington, Alberta and a shallow gas well at Monitor, Alberta. Heavy oil reserves were reduced at South Haro, Alberta as a result of negative production testing results and at Court, Saskatchewan due to poor performance and marginal economics.

RESERVE CONTINUITY SUMMARY

	Natural Gas (MMcf)		NGLs (MBbls)		Oil (MBbls)		Boe (6:1) (MBoe)	
	Proven	Probable	Proven	Probable	Proven	Probable	Proven	Probable
January 1, 2000	3,011	384	65.9	2.3	435.3	257.5	1,002.8	323.8
Discoveries/extensions	429	0	0	0	677.8	375.0	749.3	375.0
Acquisitions/divestitures	2,142	93	65.1	6.0	507.5	493.0	929.7	514.5
Production	(619)	0	(3.2)	0	(73.9)	0	(180.3)	0.0
Revisions	682	219	(48.6)	(8.3)	(385.2)	(298.5)	(320.1)	(270.3)
December 31, 2000	5,645	696	79.2	0	1,161.5	827.0	2,181.4	943.0
% Change	87	81	20	–	167	221	118	191

FINDING AND ON-STREAM COSTS:

Finding and on-stream costs continue to be positive for the Company. For consistency with prior years, 2000's cost of $5.89 per established Boe does not include the effects of acquisitions and divestitures, or revisions to previously booked reserves. On a net, all-inclusive basis, reserve replacement costs for established reserves were $8.10 per Boe during 2000 reflecting the downward revisions of heavy oil reserves at South Haro and Court. These revisions increased the net replacement costs from $6.37 per Boe to $8.10 per Boe. Lexxor expects to achieve improved finding and on-stream costs during 2001.

FINDING AND ON-STREAM COSTS

For the years ended December 31

($000 except where noted)	2000	1999
Finding Costs		
Drilling and completions	3,009	1,229
Lease acquisitions and rentals	94	119
Seismic	163	(85)
Capitalized G & A	370	426
Other costs	35	0
Total net finding costs	3,671	1,689
On-stream Costs		
Equipping costs, tie-ins & facilities	1,842	504
Finding plus on-stream costs	5,513	2,193
Reserve discoveries (MBoe)(6:1)	937	572
Costs per Boe		
Finding costs	$3.92	$2.95
On-stream costs	$1.97	$0.88
Total and average per Boe	$5.89	$3.83

NET ESTABLISHED RESERVE REPLACEMENT COSTS

	CAPITAL $000	ESTABLISHED MBoe(6:1)	NET COST $/Boe
Finding plus on-stream	5,513	937	5.89
Acquisitions / divestitures	8,012	1,187	6.75
Reserve replacement before revisions	13,525	2,124	6.37
Revisions	-	(455)	-
Total net reserve replacement	13,525	1,669	8.10

NET ASSET VALUE:

Lexxor's net asset value increased 336 percent during 2000 as a result of higher values for its proved and probable reserves. On a fully diluted basis, net asset value increased from $0.26 per share to $0.44 per share or approximately 69 percent. The number of basic shares increased substantially resulting from new equity issued on a flow-through basis, the acquisition of Icon Energy Limited and DBM Energy Inc., and the acquisition of oil and gas assets in exchange for shares. Fully diluted shares increased as a result of the issuance of warrants and employee stock options.

NET ASSET VALUE

As at January 1, 2001	2000	1999
Oil and gas reserves(1)		
Proven reserves	$ 20,961,000	$ 4,491,000
Risked probable reserves	3,927,000	836,000
Gross overriding royalty	450,000	0
	25,338,000	5,327,000
Land and Seismic		
Undeveloped acreage	1,392,000	1,078,000
Seismic	600,000	420,000
	1,992,000	1,498,000
Working capital deficit	(1,538,000)	(773,000)
Bank debt	(3,100,000)	(850,000)
Net asset value	$ 22,692,000	$ 5,202,000
Net asset value per share:		
Basic shares	49,367,359	20,108,963
Basic net asset value per share	$ 0.46	$ 0.26
Fully diluted shares(2)	55,898,590	20,108,963
Fully diluted net asset value per share	$ 0.44	$ 0.26

(1) Proved and risked probable reserves (50% risk) discounted at 15 percent before tax. Gross overriding royalty acquired with Icon Energy Limited, value estimated internally by management.

(2) For 2000, assumes that 2,795,000 stock options issued are exercised at an average $0.316 per share and 3,736,231 warrants are exercised at $0.30.

CORPORATE GOVERNANCE

The composition of Lexxor's Board of Directors as well as its existing and future governance practices are and will continue to be in alignment with The Toronto Stock Exchange's guidelines.

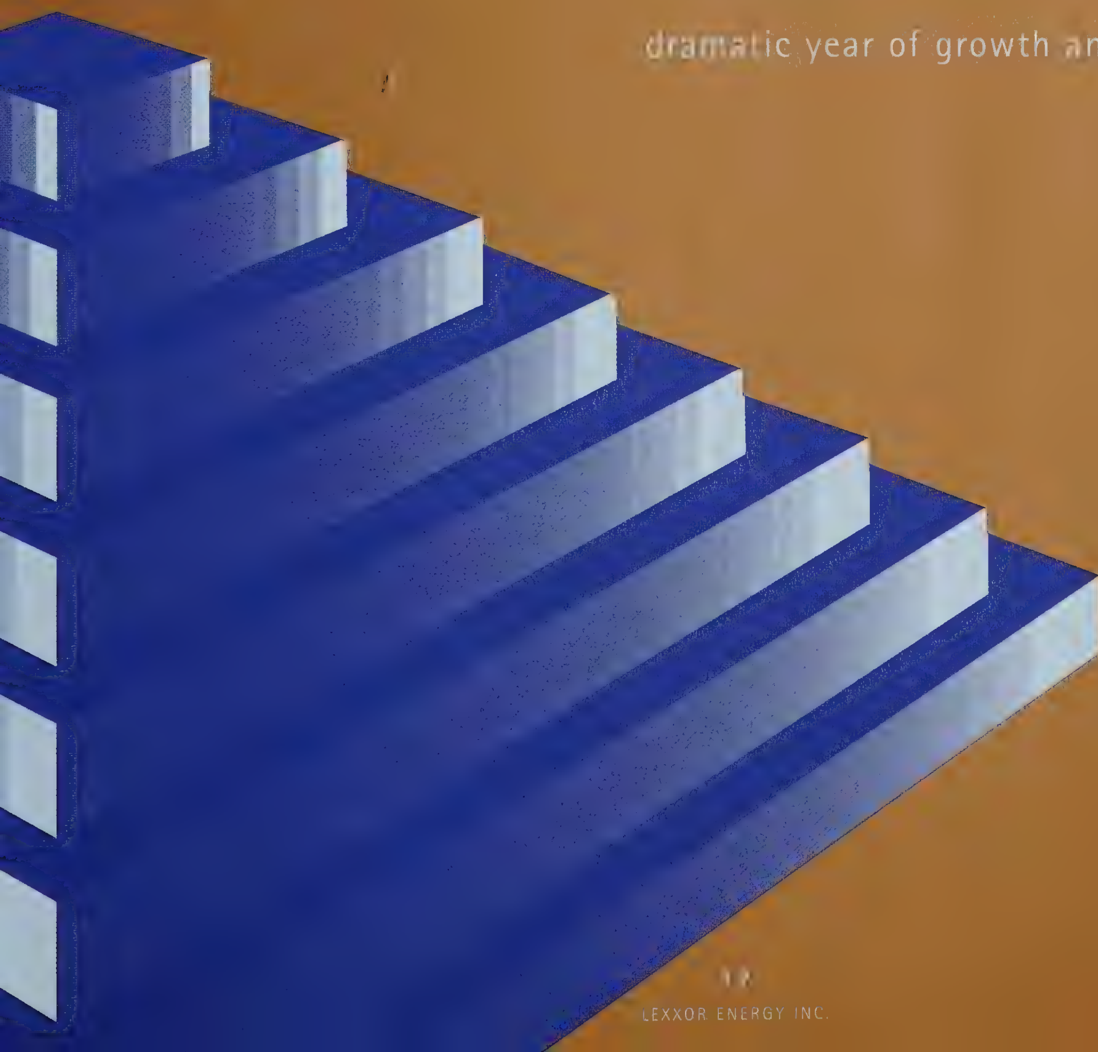
The Board of Directors of Lexxor receive weekly reports summarizing Lexxor's exploration, development, acquisition and production activities. In addition, the Board of Directors meet a minimum of four times during the year to review and approve the quarterly results of the Company. During September 2000, the Board of Directors met and were involved in Lexxor's strategic planning and the setting of operational and financial goals. In March 2001, the Directors reviewed and approved the 2001 business plan and the specified goals of the Company.

The Board of Directors has an Audit Committee and a Compensation Committee consisting of two outside directors and one inside director. The two outside directors are unrelated and have no conflicting interests. The Audit Committee and the Compensation Committee present their recommendations to the Board of Directors for approval. The composition of the seven member Board of Directors includes five outside directors and two inside directors.

In March 2001, the Audit Committee met with the external auditors and discussed the results of the audit of the December 31, 2000 financial statements. In March 2001, the full Board of Directors met with the independent engineering consultants that prepared the Company's reserve report. During that meeting, the scope of the engineering evaluation and the results of the engineering evaluation were fully discussed and approved.

The Compensation Committee reviews company targets that are directly linked to any potential bonus payments to the officers of Lexxor, and reviews and approves annual remuneration.

With a major acquisition completed, Lexxor expects 2001 to be an exciting and dramatic year of growth and profitability.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Lexxor expected 2000 to be a significant year in terms of growth and profitability and truly it was. Corporate acquisitions, successful development and exploratory drilling activities and strong product prices combined to produce record levels of production, revenues, cash flow and earnings. The strong results posted for 2000 combined with several equity offerings throughout the year have enabled Lexxor to embark on an aggressive growth strategy based on prudent financial parameters and sound management principles. With a major acquisition completed from Talisman Energy Inc., Lexxor expects 2001 to be an exciting and dramatic year of growth and profitability.

Lexxor concentrated in early 2000 on finalizing the Icon Plan of Arrangement and later on focusing on the enhancement and addition of production from Icon's properties. The Plan of Arrangement was completed on April 3, 2000 and Icon became a wholly owned subsidiary of Lexxor. On July 1, 2000 Icon and Lexxor were amalgamated continuing under the name of Lexxor Energy Inc. The opportunities presented in both the Lexxor and Icon properties, in combination with the strong pricing environment for both oil and natural gas, enabled Lexxor to undertake an active drilling program that resulted in increased production from Icon and other properties during the period.

On December 29, 2000, Lexxor acquired DBM Energy Inc. by issuing 7,075,133 Lexxor Class A shares. This acquisition added approximately 137 Bbls/d to Lexxor's exit production rate, approximately 194,000 barrels of light oil to Lexxor's established reserve base and increased Lexxor's interest in the Antler, Saskatchewan property to 95 percent. The acquisition of producing wells and drilling locations on common land holdings is expected to increase production from this area in 2001.

PRODUCTION: (gas converted to a barrel of oil equivalent at a conversion rate of 6:1)

Production (sales) for the year increased on a Boe basis 82 percent to average 494 Boe/d versus 271 Boe/d in 1999. Lexxor's production mix consisted of 1,696 Mcf/d of natural gas (57 percent of total), up 47 percent from 1,151 Mcf/d in 1999 and 211 Bbls/d of oil and NGLs, (43 percent of total) up 167 percent from 79 Bbls/d in 1999.

AVERAGE PRICES:

The average price received per Boe in 2000 increased to $37.01 per Boe up 103 percent from $18.26 per Boe received in 1999. The average natural gas price increased 103 percent to $5.58 per Mcf in 2000, up from $2.75 per Mcf in 1999. Prices for natural gas are expected to remain strong in 2001 and additional revenue increases are expected. The average price received for oil and NGLs increased 85 percent in 2000 to average $41.77 per Bbl versus $22.55 per Bbl in 1999. Oil prices have declined somewhat from their peaks reached in late 2000, but remain at a level that produce extremely attractive economics.

BARREL OF OIL EQUIVALENT CASH NETBACK:

The average cash netback price (after general and administrative expenses and interest) received during 2000 was $16.83 per Boe, up 367 percent from $3.61 per Boe received in the comparable 1999 period. This average cash netback price results from an average natural gas netback price of $3.19 per Mcf

received in 2000 versus $1.53 per Mcf received in 1999 and an oil and NGLs netback price of $27.29 per Bbl received in 2000 versus $8.11 per Bbl received in 1999. General and administrative expenses reduced the average Boe operating netback of $22.61 per Boe by $4.62 per Boe in 2000 versus $4.61 per Boe in 1999 with interest expense further reducing the cash netback by $1.16 per Boe in 2000 compared to $0.74 in 1999.

2000 BOE CASH NETBACK

	2000	1999	Percent Change
Sales total	180,262	98,926	82%
per day	494	271	82%
Revenue	$ 37.01	$ 18.26	103%
Hedging	($ 0.22)		
Royalties	(7.04)	(3.56)	98%
ARTC	0.39	0.68	-43%
Operating	(7.53)	(6.42)	17%
Operating Netback	**22.61**	**8.96**	152%
General and Administrative	(4.62)	(4.61)	0%
Interest	(1.16)	(0.74)	56%
	$ 16.83	**$ 3.61**	367%

EARNINGS:

As a result of significant increases in production and product prices, revenues increased 267 percent to $6,631,886 from $1,806,809 in 1999. Increased revenues and greater control and monitoring of operating expenses resulted in earnings increasing to $1,339,596 ($0.04 per share basic and fully diluted) in 2000 from $14,588 in 1999. With product prices remaining strong and our production base expected to increase, Lexxor should continue this earnings trend into 2001.

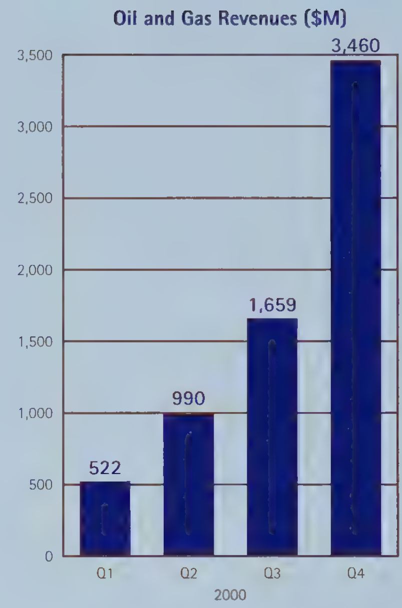
CASH FLOW:

Cash flow from operations increased 770 percent in 2000 to $3,110,096 ($0.10 per share basic, $0.09 fully diluted) from $357,138 ($0.02 per share basic and fully diluted) in 1999. The increase is attributable to higher average prices in 2000 offset by higher royalties, operating expenses, and general and administrative expenses. Royalties increased due to higher prices, operating costs increased due to increased production and workovers conducted on two producing wells and general cost increases while general and administrative expenses increased due to increased operational activity.

With an increasing production base and fundamental strength in product prices, cash flow should increase steadily in 2001 enabling Lexxor to implement its 2001 drilling program.

REVENUES:

Revenues increased 267 percent in 2000 to $6,631,886 from $1,806,809 in 1999. This increase is due to a higher production base with the addition of the Icon properties, successful exploitation at Antler and Court, successful exploratory drilling at Neutral Hills and Provost and the effect of the acquisition of properties at Garrington, Antelope and Ingoldsby.



Natural gas revenues increased 195 percent to total $3,410,509 versus $1,155,069 in 1999. This resulted from increased revenues from existing properties at Garrington, Provost and Court and the Icon properties. Oil and NGLs revenue increased 394 percent to $3,221,377 from $651,740 in 1999 due primarily to increased production and drilling at Antler, Saskatchewan and Neutral Hills, Alberta.

ROYALTIES:

Royalties paid on production as a percentage of revenue remained level at 19 percent. Lexxor expects this rate to increase slightly as higher royalty production is brought on stream and royalty holidays expire. On a Boe basis, royalties increased from $3.56 per Boe in 1999 to $7.04 per Boe in 2000.

Royalties on natural gas totaled $752,983 (22 percent) versus $230,622 (20 percent) in 1999. In 2000, Crown royalties totaled $343,448 ($154,946 in 1999) with freehold, overrides and other burdens totaling $409,535 ($75,676 in 1999).

Royalties on oil and NGLs totaled $515,865 (16 percent) versus $121,419 (19 percent) in 1999. In 2000, Crown royalties totaled $183,531 ($83,722 in 1999) with freehold, overrides and other burdens totaling $332,334 ($37,697 in 1999).

ALBERTA ROYALTY CREDIT:

The ARTC provides a royalty credit of between 25 percent and 75 percent against a maximum of $2,000,000 of royalties payable to the Crown, based on a price sensitive formula. As a result of the current high prices, the credit is set at 25 percent. In 2000, Lexxor was credited $70,216 versus $67,489 in 1999 against Crown royalties paid under the program. Lexxor's claim is related primarily to gas properties as most of our oil production is either in Saskatchewan or eligible for a royalty holiday. This program is essential to small producers in an environment of low prices and is expected to continue in 2001. The benefit of this program to Lexxor will increase as Lexxor focuses on additional drilling at Neutral Hills and other Alberta properties and Alberta royalty holidays expire on existing wells.

OPERATING EXPENSES:

Operating expenses increased 114 percent in 2000 to $1,356,942 from $635,403 in 1999. This increase is consistent with our increase in production. On a Boe Basis, operating expenses increased to $7.53 per Boe in 2000 from $6.42 in 1999.

Oil and NGLs operating costs increased to $606,839 in 2000 from $295,658 in 1999 but on a per barrel basis decreased from $10.23 per barrel in 1999 to $7.87 per barrel in 2000. Lower cost operations at Antler and Neutral Hills have offset higher cost properties and heavy oil operations that in 2000 represented less than 5 percent of our production base.

Natural gas operating costs increased to $750,103 in 2000 from $339,745 in 1999. On an Mcf basis, costs increased from $0.82 per Mcf in 1999 to $1.21 per Mcf in 2000. This increase is attributed to higher field costs for gathering and compression, a phenomenon that is expected to continue to increase in 2001.

GENERAL AND ADMINISTRATIVE EXPENDITURES:

Gross general and administrative expenditures totaled $1,407,706 in 2000 an increase from $953,900 in 1999. Overhead recoveries reduced total expenditures by $204,460 in 2000 up from $71,872 in 1999. Lexxor capitalizes those expenditures related to land, geological and geophysical activities and the overhead related to those activities. In 2000, Lexxor capitalized $370,000 of such expenditures, down from $425,800 in 1999.

Net general and administrative expense (after overhead recoveries and capitalized expenditures) totaled $833,246, up from $456,228 in 1999. Increased general and administrative expense was incurred as a result of the Icon transaction, and additional costs relating to staff in finance and administration, land and engineering. Additional expense was incurred in 2000 over 1999 in the areas of engineering evaluations, as a result of the Icon transaction and the successful drilling program in 2000, legal and accounting fees and shareholder communication costs.

On a Boe basis, Lexxor incurred $7.81 per Boe in 2000 ($9.64 in 1999) of gross general and administrative expenditures and $4.62 per Boe ($4.61 in 1999) on a net basis after overhead recoveries and capitalized overhead.

Lexxor currently has 12 employees and utilizes consultants as required. It is expected that as a result of our acquisitions, the increased number of employees and consultants required due to higher production and activity levels, our need for additional office space and other increases, our general and administrative expenditures will increase in 2001 on both a gross and net basis. It is expected that as production increases, our Boe number will be reduced from the levels incurred in 2000.

INTEREST EXPENSE:

Lexxor incurred $208,470 of interest expense in 2000 compared to $73,488 in 1999. This increase is directly attributable to a higher level of debt utilized by Lexxor in 2000 for development drilling activities, acquisitions and operations and fees associated with borrowings under our development line. On a Boe basis, interest represented a cost of $1.16 per Boe in 2000 versus $0.74 in 1999. Current plans for

2001 are for debt to increase as a result of our pending acquisition and development drilling planned for 2001 and be reduced through cash flow generated over the latter part of the year. Exploratory drilling activities are financed through cash flow and equity financing.

DEPRECIATION, DEPLETION AND SITE RESTORATION:

Depreciation, depletion and site restoration expense increased in 2000 to $1,075,000 or $5.96 per Boe from $342,550 or $3.46 in 1999. This increase is attributed to the higher costs generally experienced in oil and gas drilling activities and the limited reserves recognized in exploratory wells. As development occurs at Neutral Hills and additional low cost reserves are added, it is expected that the Boe rate will decrease over time.

A provision of $240,000 for future removal and site restoration costs has been recognized in these financial statements based on total estimated costs related to future site restoration and abandonment costs of $900,000.

FUTURE INCOME TAXES:

Effective January 1, 2000, Lexxor adopted the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants. Under the liability method, future income taxes are recognized for all differences between the accounting and income tax basis of assets and liabilities, based on the substantively enacted income tax rates and laws that will be in effect when the differences are expected to reverse. Lexxor adopted the recommendations on a retroactive basis without restatement of individual prior periods by recording additional capital assets of $1,700,000, recording an increase in retained earnings of $849,000, and an increase in the future income taxes of $851,000. The additions to the capital assets will be amortized to income over future periods.

During the year ended December 31, 2000, Lexxor recognized a provision for future income taxes of $620,000. The provision reflects primarily an increase in the difference between the accounting and income tax basis of capital assets in excess of tax pools. At December 31, 2000, Lexxor has tax pools available for deduction against future taxable income of approximately $12,700,000.

CAPITAL ADDITIONS AND SALES OF PROPERTY:

Capital additions during 2000 including the Icon and DBM transactions totaled $13,978,271 versus $2,606,614 in the corresponding period of 1999. In addition to the Icon and DBM acquisitions, Lexxor acquired property at Taber, Berry, Ingoldsby and Nisku and incurred drilling and development expenditures primarily at Antler, Monitor/Misty and Neutral Hills. Lexxor tied-in wells at Nisku, Monitor/Misty, Court, and Neutral Hills. Proceeds from the disposition of property at Haro South, Cranberry and miscellaneous interests yielded $453,500 to Lexxor versus proceeds of $2,195,346 from property dispositions in 1999.

Lexxor expects to maintain an active capital expenditure program in 2001 with expenditures for acquisitions, drilling, facilities and tie-ins totaling approximately $14 million.

FINANCIAL RESOURCES AND LIQUIDITY:

During 2000, Lexxor was successful in putting together the pieces required for growth. These pieces involved issuing equity for acquisitions and drilling, employing a reasonable level of bank debt and utilizing cash flow for drilling.

Lexxor added production and prospects with the acquisitions of Icon and DBM by issuing 14,640,121 Class A shares to shareholders of those companies. In addition, Lexxor issued 1,883,765 Class A shares to creditors of Icon as satisfaction of a portion of amounts owed and in each transaction issued warrants which, if exercised, will prove to be an additional source of funds. In order to finance exploratory and development drilling activity, Lexxor issued 9,688,235 Class A flow-through shares by way of private placements raising $2.8 million. During 2000, under separate private placements, Lexxor also issued 1,500,000 Class A shares to acquire two oil and gas properties and 1,500,000 Class A shares pursuant to a private placement.

In addition, during 2000 Lexxor sold non-producing and other property for proceeds totaling $453,500. This was down substantially from 1999 when sales of property generated $2,195,346 in proceeds. Lexxor will continue to evaluate its property portfolio in order to re-deploy capital.

On March 9, 2001 the Company agreed to a revised credit facility consisting of a $8,500,000 revolving reducing demand loan (Facility A) and a $2,000,000 non-revolving acquisition/development demand loan (Facility B). Facility A bears interest at prime plus three-quarters and reduces commencing April 28, 2001 at $250,000 per month. This facility was put in place to complete the acquisition of $4.5 million (subject to adjustment) of oil properties which closed in March 2001. Facility B is subject to a drawdown fee of one-quarter of one percent for acquisitions and one-half of one percent for development and bears interest at prime plus one percent. At December 31, 2000, Lexxor had debt of $3,100,000 and a working capital deficiency of $1,537,957.

MANAGEMENT'S REPORT

TO THE SHAREHOLDERS OF LEXXOR ENERGY INC.

The consolidated financial statements of Lexxor Energy Inc. and other financial information included in this annual report have been prepared by management. It is management's responsibility to ensure that sound judgement, appropriate accounting principles and methods, and reasonable estimates have been used in the preparation of this information. They also ensure that all information presented is consistent with that reported in the financial statements.

Management is also responsible for developing internal controls over the financial reporting process. Management believes the system of internal controls, the review procedures and the established policies provide timely information and reasonable assurance as to the reliability and relevance of financial reports to management. Management also believes that Lexxor's operations are conducted in conformity with the law and with a high standard of business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Committee, which consists of a majority of non-management directors, reviews the financial statements and annual report, and recommends them to the Board for approval. The Committee meets with management and external auditors to discuss internal controls, auditing matters and financial reporting issues. External auditors have full and unrestricted access to the Audit Committee. The Committee also recommends a firm of external auditors to be appointed by the Shareholders.

Douglas O. McNichol
President and Chief Operating Officer

J. Paul Lawrence
Vice President, Finance and
Chief Financial Officer

March 19, 2001
Calgary, Alberta

AUDITORS' REPORT

TO THE SHAREHOLDERS OF LEXXOR ENERGY INC.

We have audited the consolidated balance sheets of Lexxor Energy Inc. as at December 31, 2000 and 1999 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Chartered Accountants

Calgary, Canada
March 16, 2001

CONSOLIDATED BALANCE SHEETS

As at December 31

	2000	1999
	$	$
ASSETS *[note 5]*		
Current		
Cash and cash held in trust *[note 7(b)(vi)]*	921,967	9,350
Short term investment	284,618	–
Accounts receivable	3,231,703	789,512
Prepaid expenses	86,845	74,642
Property held for sale	–	250,000
	4,525,133	1,123,504
Capital assets *[note 4]*	16,569,731	2,751,559
	21,094,864	3,875,063
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	6,063,090	1,896,493
Long term debt *[note 5]*	3,100,000	850,000
Future income taxes *[note 8]*	1,501,000	–
Provision for future removal and site restoration *[note 6]*	240,000	84,000
Commitments *[notes 10 and 11]*		
Shareholders' equity		
Share capital *[note 7]*	14,009,393	7,051,785
Deficit	(3,818,619)	(6,007,215)
	10,190,774	1,044,570
	21,094,864	3,875,063

See accompanying notes

Approved by the Board:

Douglas O. McNichol
Director

Ronald J. Will
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the year ended December 31

	2000 $	1999 $
Revenue		
Petroleum and natural gas sales	6,631,886	1,806,809
Royalties	(1,268,848)	(352,041)
Alberta Royalty Tax Credit	70,216	67,489
	5,433,254	1,522,257
Expenses		
Operating	1,356,942	635,403
General and administrative	833,246	456,228
Interest on long term debt	208,470	73,488
Depletion, depreciation and site restoration	1,075,000	342,550
	3,473,658	1,507,669
Earnings before income taxes	1,959,596	14,588
Provision for future income taxes *[note 8]*	620,000	–
Net earnings for the year *[note 9]*	1,339,596	14,588
Deficit, beginning of year	(6,007,215)	(6,021,803)
Change in accounting policy *[note 2]*	849,000	–
Deficit, end of year	(3,818,619)	(6,007,215)

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31	2000 $	1999 $
Operating activities		
Net earnings for the year	1,339,596	14,588
Item not affecting cash		
Provision for future income taxes	620,000	–
Depletion, depreciation and site restoration	1,075,000	342,550
General and administrative	75,500	–
Cash flow from operations	3,110,096	357,138
Net increase in non-cash working capital balances	304,061	193,508
Cash provided by operating activities	3,414,157	550,646
Financing activities		
Increase (decrease) in long term debt	1,650,000	(410,000)
Issue of common shares	2,973,381	87,000
Issue of special warrants	–	230,000
Share and warrant issue costs	(154,318)	(40,664)
Cash provided by (used in) financing activities	4,469,063	(133,664)
Investing activities		
Expenditures on capital assets	(6,875,897)	(2,606,614)
Proceeds from sale of properties	453,500	2,195,346
Acquisition costs	(548,206)	–
Cash used in investing activities	(6,970,603)	(411,268)
Net cash provided	912,617	5,714
Cash, beginning of year	9,350	3,636
Cash and cash held in trust, end of year	921,967	9,350

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and 1999

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lexxor Energy Inc. (the "Company" or "Lexxor") was incorporated under the laws of the Province of Alberta on August 8, 1995. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, DBM Energy Inc. ("DBM").

The Company's shares are listed for trading on the Canadian Venture Exchange. The Company's business is the acquisition of and the exploration for and development and production of crude oil and natural gas in Canada.

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements involves the use of estimates and approximations which have been made using careful judgment. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

PETROLEUM AND NATURAL GAS PROPERTIES

The Company follows the full cost method of accounting for petroleum and natural gas properties, whereby all costs related to the acquisition of, exploration for and development of petroleum and natural gas properties and related reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells, tangible production equipment and that portion of general and administrative expenditures directly related to acquisition, exploration and development activities. Proceeds from the disposal of properties are applied as a reduction of the cost of the remaining assets, except when such a disposal would change the depletion and depreciation rates by more than 20%, in which case a gain or loss on disposal would be recorded.

Capitalized costs, including tangible production equipment, are depleted and depreciated using the unit-of-production method based on estimated proven reserves of petroleum and natural gas before royalties as determined by an independent reserve engineer, converting natural gas to an oil equivalent basis using six thousand cubic feet of natural gas for one barrel of petroleum.

The Company applies a ceiling test to capitalized costs on an annual basis to ensure that such costs do not exceed the estimated undiscounted future net revenues from production of gross proven reserves, using prices and costs in effect at year end, plus the cost of undeveloped properties net of impairment, less amounts associated with future general and administrative costs, financing costs and income tax expense.

FUTURE REMOVAL AND SITE RESTORATION COSTS

Estimated future costs of site restorations, including the removal of production facilities at the end of their useful lives, are provided for on a unit of production basis. The estimate is based on current costs, existing legislation and industry practice. The annual provision is included in depletion, depreciation and site restoration expense. Actual expenditures incurred are applied against the accumulated liability.

DEPRECIATION

Office furniture and equipment is depreciated on a straight-line basis per annum.

JOINT ACTIVITIES

Substantially all of the Company's exploration and production activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

FINANCIAL INSTRUMENTS

The fair values of financial instruments, comprising cash and cash held in trust, short term investment, accounts receivable, accounts payable and accrued liabilities and long-term debt, approximate their carrying values. The Company utilizes derivative financial instrument contracts to manage, to a degree, its exposure to commodity prices. These contracts are designed and are effective as hedges and are not utilized for speculative purposes. Settlement of these contracts is realized in petroleum and natural gas sales at the time of the sale of the related production.

PER SHARE INFORMATION

Per share information is calculated on the basis of the weighted average number of shares outstanding. Fully diluted per share information is calculated on the basis of the weighted average number of shares that would have been outstanding had all stock options and warrants been converted to common shares.

FLOW-THROUGH SHARES

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Under the liability method of accounting for income taxes adopted by the Company effective January 1, 2000, the future income taxes related to the temporary difference arising at the later of renunciation and when the qualifying expenditures are incurred, are recorded at that time together with a corresponding reduction to the carrying value of the shares issued. Prior to January 1, 2000 petroleum and natural gas properties and share capital were reduced by the estimated cost of renounced tax deductions when the expenditures were incurred.

STOCK OPTIONS

Under the stock option plans described in note 7(e), no compensation expense is recognized when stock options are issued to employees. Any consideration paid on exercise of stock options is credited to share capital.

MEASUREMENT UNCERTAINTY

The amounts recorded for depletion and depreciation of capital assets and the provision for future removal and site restoration costs and future income taxes are based on estimates. The ceiling test is based on such factors as estimated proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

CREDIT RISK

The majority of the Company's accounts receivable are in respect of petroleum and natural gas sales. Approximately 35% of these sales are to one purchaser. This entity is a substantial marketing organization. The company views the credit risk with this purchase as low.

2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2000, the Company adopted the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants ("CICA"). Under the liability method, the Company records future income taxes for

the effect of any difference between the accounting and income tax basis of an asset or liability recorded using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Prior to January 1, 2000, the Company followed the deferral method of tax allocation accounting under which the provision for income taxes was based on the earnings reported in the accounts. This method made full provision for income taxes deferred as a result of timing differences between income per the financial statements and taxable income.

The Company has adopted the CICA recommendations on a retroactive basis without restatement of individual prior periods by recording an increase to capital assets of $1,700,000, a decrease in deficit of $849,000, and an increase in the future income taxes of $851,000. The additions to capital assets will be amortized to income over future periods.

3. ACQUISITIONS

(a) ICON ENERGY LIMITED

On April 3, 2000, pursuant to a Plan of Arrangement, Lexxor acquired all of the outstanding common shares of Icon Energy Limited ("Icon"). The acquisition has been accounted for using the purchase method and the purchase price has been allocated as follows:

	$
Net working capital deficiency assumed	(679,669)
Capital assets	1,563,518
Future income taxes	2,003,000
Long term debt assumed	(600,000)
Future removal and site restoration liability assumed	(39,599)
	2,247,250

	$
Consideration	
9,448,753 Lexxor Class A shares issued	1,889,747
3,782,506 Lexxor warrants issued	–
Costs of acquisition	357,503
	2,247,250

Each warrant entitles the holder the right to acquire one Lexxor Class A share at $0.30 per share until June 30, 2001. No value was assigned to the warrants at the time of the Plan of Arrangement.

The Plan of Arrangement required that Icon's unsecured creditors agreed to settle a portion of their outstanding claims against Icon through the receipt of Lexxor Class A shares valued at $0.20 per share. As a result, Lexxor issued 1,883,765 Class A shares in settlement of $376,750 in Icon creditor claims, reducing the net working capital deficiency assumed to $679,669. The operations of Icon have been included in these consolidated financial statements from the date of acquisition.

On July 1, 2000, Icon and the Company were amalgamated, continuing under the name of Lexxor Energy Inc.

An adjustment of $2,003,000 recognizes the tax effect of the difference between the accounting and income tax basis of the Icon capital assets acquired.

(b) DBM ENERGY INC.

On December 29, 2000, pursuant to an Offer to Purchase, Lexxor acquired all of the outstanding common shares of DBM Energy Inc. ("DBM"). Each DBM common shareholder was issued one (1) Lexxor Class A share and one-half of one (1/2) Lexxor warrant for every 1.6 DBM common share held. Each whole Lexxor Warrant will be exercisable until June 30, 2002 and will enable the holder to acquire one (1) Lexxor Class A share at $0.60. No value was assigned to the warrants at the time of the Offer to Purchase. The acquisition has been accounted for using the purchase method and the purchase price has been allocated as follows:

	$
Net working capital deficiency assumed	(443,856)
Capital assets	4,297,856
Future income tax liability	(1,127,000)
Future removal and site restoration liability assumed	(60,000)
	2,667,000

	$
Consideration	
7,075,133 Lexxor Class A shares issued	2,476,297
3,537,567 Lexxor warrants issued	–
Costs of acquisition	190,703
	2,667,000

The operations of DBM have been included in these financial statements from the date of acquisition.

An adjustment of $1,127,000 recognizes the tax effect of the difference between the accounting and income tax basis of the DBM capital assets acquired.

4. CAPITAL ASSETS

	2000 $	1999 $
Petroleum and natural gas properties	**22,415,791**	7,725,776
Production equipment	**6,057,958**	2,168,494
	28,473,749	9,894,270
Office furniture and equipment	**173,131**	138,839
	28,646,880	10,033,109
Accumulated depletion and depreciation	**(12,077,149)**	(7,031,550)
	16,569,731	3,001,559
Less property held for sale	**–**	(250,000)
	16,569,731	2,751,559

Undeveloped properties with a cost of $650,000 (1999 - $575,000) have been excluded from costs subject to depletion and depreciation.

During 2000, the Company capitalized $370,000 (1999 - $425,800) of general and administrative expenditures related to acquisition, exploration and development activities.

5. LONG TERM DEBT

At December 31, 2000, the Company had a $3,100,000 revolving demand production loan facility bearing interest at the bank's prime lending rate plus 1% per annum. As of December 31, 2000, drawings under this facility amounted to $1,000,000 (1999 - $850,000) plus additional drawings related to cheques outstanding of $645,000 at an effective interest rate of 8.5% (1999 - 7.5%). The facility is allowed to revolve and fluctuate at the Company's discretion without fixed repayment terms and is subject to an annual review.

In addition, the Company has a $2,000,000 non-revolving acquisition/development demand loan facility bearing interest at the bank's prime lending rate plus 1 1/4% per annum. As of December 31, 2000, drawings under this facility amounted to $755,000 plus additional drawings relating to cheques outstanding of $700,000 at an effective interest rate of 8.75%.

The collateral for the credit facilities is provided by a floating charge petroleum and gas debenture in the principal amount of $10,000,000 over all of the assets of the Company.

On March 9, 2001 the Company agreed to a revised credit facility consisting of a $8,500,000 revolving reducing demand loan (Facility A) and a $2,000,000 non-revolving acquisition/development demand loan (Facility B). Facility A bears interest at prime plus 3/4% per annum and reduces commencing April 28, 2001 at $250,000 per month. This facility is conditional on the Company completing the acquisition of $4,500,000 (subject to adjustment) of petroleum properties closing in March 2001. Facility B is subject to a drawdown fee of 1/4% for acquisitions and 1/2% for development expenditures and bears interest at prime plus 1% per annum.

The lender has indicated that they will not demand repayment of the loans prior to December 31, 2001 providing no adverse change in the financial condition of the Company has occurred.

Cash interest approximates interest expense.

6. FUTURE REMOVAL AND SITE RESTORATION

At December 31, 2000, the total estimated costs relating to future site restoration and well abandonment are estimated to be $900,000 (1999 - $260,000) of which $240,000 (1999 - $84,000) has been recorded in the financial statements as a liability.

7. SHARE CAPITAL

(a) AUTHORIZED

Unlimited number of Class A voting shares

Unlimited number of Class B voting shares

(b) ISSUED AND ISSUABLE

	2000		1999	
	Number of Shares	Amount $	Number of Shares	Amount $
Class A Shares and special warrants				
Balance, beginning of year	13,257,183	3,918,480	11,672,183	4,009,144
Issued on Icon acquisition to shareholders and creditors *[note 3(a)] and(i)*	9,448,753	1,889,747	–	–
Issued for cash pursuant to private placement *(ii)*	1,500,000	300,000	435,000	87,000
Special warrants issued for cash pursuant to private placement	–	–	1,150,000	230,000
Issued to acquire Bluestone assets *(iii)*	1,500,000	300,000	–	–
Issued on conversion of Class B shares *(iv)*	6,851,780	3,133,305	–	–
Issued on exercise of warrants *[7(d)]*	46,275	13,882	–	–
Issued on acquisition of DBM Energy Inc. *[note 3(b)] and (v)*	7,075,133	2,476,297	–	–
Issued pursuant to flow-through share offerings *(vi)*	9,688,235	2,800,000	–	–
Issue costs net of future income taxes	–	(85,318)	–	(40,664)
Tax benefits renounced *(vi)*	–	(737,000)	–	(367,000)
Balance, end of year	49,367,359	14,009,393	13,257,183	3,918,480
Class B shares				
Balance, beginning of year	1,370,356	3,133,305	1,370,356	3,133,305
Converted to Class A shares *(iv)*	(1,370,356)	(3,133,305)	–	–
Balance, end of year	–	–	1,370,356	3,133,305
		14,009,393		7,051,785

(i) In April 2000, the Company completed a Plan of Arrangement ("Plan") for the acquisition of Icon Energy Limited ("Icon"). Under the Plan, the Company issued a total of 9,448,753 Class A shares, 7,564,988 to Icon shareholders and 1,883,765 to Icon creditors. The shares were valued at $0.20 per Class A share.

(ii) In March 2000, the Company completed a private placement issuing 1,500,000 Class A shares at $0.20 per share. In December 1999, the Company had completed an initial closing of the private placement issuing 435,000 Class A shares at $0.20 per share for gross proceeds of $87,000. This private placement was revised on February 24, 2000 to expand the maximum number of shares to 3,000,000 from 600,000 and to extend the final closing date to March 31, 2000.

(iii) In August 2000, the Company issued 1,500,000 Class A shares valued at $0.20 per share as partial consideration for the acquisition of certain petroleum and natural gas properties owned by Bluestone Resources Inc. ("Bluestone"). The balance of the $700,000 purchase price due to Bluestone of $400,000 was paid in cash.

(iv) In April 2000, the Company issued 6,851,780 Class A shares on the conversion of 1,370,356 Class B shares. The conversion was based on a conversion ratio of five (5) Class A shares for each Class B share.

(v) In December 2000, the Company issued 7,075,133 Class A shares and 3,537,567 Class A share purchase warrants pursuant to an offer to purchase to shareholders of DBM. One warrant plus $0.60 allow the holder to acquire one (1) Class A share until June 30, 2002.

(vi) In October 2000, the Company issued 1,250,000 Class A flow-through shares under a private placement at $0.40 per-share for gross proceeds of $500,000.

In September 2000, the Company issued 5,000,000 Class A flow-through shares under a private placement at $0.20 per share for gross proceeds of $1,000,000.

In September 2000, the Company issued 600,000 Class A flow-through shares under a private placement at $0.25 per share for gross proceeds of $150,000.

In December 2000, the Company entered into an agreement with MRF 2000 Limited Partnership (the Partnership) to issue 1,250,000 Class A flow-through shares under a private placement at $0.40 per share for gross proceeds of $500,000. The funds are held in-trust for the Company pending the Company issuing the forms prescribed in the Income Tax Act (Canada), incurring qualifying expenditures of $500,000 and issuing the shares (note 12). The Company has renounced for income tax purposes $500,000 of exploration and development expenditures to the Partnership effective December 31, 2000 and has until December 31, 2001 to incur the expenditures.

In December 2000, the Company entered into an agreement with Petrovest VII Flow-through Share Limited Partnership (Petrovest) to issue 588,235 Class A flow-through shares under a private placement at $0.425 per share for gross proceeds of $250,000. The funds are held in-trust for the Company pending the Company issuing the forms prescribed in the Income Tax Act (Canada) and the Taxation Act (Quebec), incurring qualified expenditures of $250,000 and issuing the shares (note 12). The Company has renounced for income tax purposes $250,000 of exploration and development expenditures to Petrovest effective December 31, 2000 and has until December 31, 2001 to incur the expenditures.

In December 2000, the Company issued 1,000,000 Class A flow-through shares and 500,000 Class A share purchase warrants exercisable until June 30, 2002 at $0.60 per Class A share under a private placement at $0.40 per share for gross proceeds of $400,000. The Company has renounced for income tax purposes $400,000 of exploration and development expenditures effective December 31, 2000 and has until December 31, 2001 to incur the expenditures.

(c) SPECIAL WARRANTS

In November 1999, the Company issued by way of private placement 1,150,000 flow-through special warrants for proceeds of $230,000. Each special warrant entitled the holder to acquire, at no additional cost, one Class A share for each special warrant held. At December 31, 2000, all of the special warrants have been converted into Class A shares.

(d) WARRANTS

As part of the Offer to Purchase DBM in December 2000, the Company issued 3,537,567 warrants expiring June 30, 2002 to shareholders of DBM. Each warrant plus $0.60 is required to purchase one Class A share [note 3(b)].

As part of a private placement of flow-through shares in December 2000, the Company issued 500,000 Class A share purchase warrants expiring June 30, 2002. Each warrant plus $0.60 is required to purchase one Class A share.

As part of the Offer to Purchase Icon in March 2000, the Company issued 3,782,506 warrants expiring June 30, 2001 to shareholders of Icon. Each warrant plus $0.30 is required to purchase one Class A share. To December 31, 2000, 46,275 warrants have been exercised [note 3(a)].

(e) STOCK OPTIONS

The Company has established two stock option plans whereby the Company may grant options to purchase Class A shares to its directors, officers, employees and consultants. The shareholders at the Company's Annual and Special Meeting in April 2000 approved a New Stock Option Plan and reserved for issuance a maximum of 2,200,000 Class A shares under both the New Stock Option Plan and the Prior Plan. The Company has received approval from the Canadian Venture Exchange (CDNX) to increase the maximum number of shares reserved under both plans to 3,100,000 and is requesting approval for a further increase to 4,900,000 subject to receiving CDNX and shareholder approval at the Company's next Annual Meeting. Under the New Stock Option Plan, options are granted at the closing market price of the Class A shares on the date immediately preceding the date of grant, vest over a five year period or as determined by the board of directors of the company and expire no later than ten years from the date of grant. All future options are to be granted under the New Stock Option Plan.

The options outstanding under the Prior Plan are exercisable over a five year period and expire between January 2001 and January 15, 2004. In 1999, notice was accepted to re-price 293,000 employee (excluding officers and directors) options at $0.25 per share.

The following is a continuity of stock options outstanding for which shares have been reserved:

	2000		1999	
	Shares (000s)	Weighted Average Exercise Price $	Shares (000s)	Weighted Average Exercise Price $
Outstanding at beginning of year	**968**	**0.795**	738	1.127
Granted	**2,177**	**0.206**	410	0.250
Exercised	**–**	**–**	–	–
Cancelled	**(350)**	**0.964**	(180)	0.910
Outstanding at end of year	**2,795**	**0.316**	968	0.795

The following summarizes information about stock options outstanding at December 31, 2000:

	Outstanding		Exercisable		
Exercise Prices $	Number Outstanding at December 31 2000 (000s)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price $	Number Exercisable at December 31 2000 (000s)	Weighted Average Exercise Price $
0.15	300	2.00	0.15		0.15
0.18	1,370	1.91	0.18		0.18
0.19	50	2.25	0.19		0.19
0.25	410	3.08	0.25	205	0.25
0.32	50	2.33	0.32		0.32
0.35	320	2.42	0.35		0.35
0.36	25	2.42	0.36		0.36
1.25-1.30	270	0.33	1.26	270	1.26
	2,795			475	

8. FUTURE INCOME TAXES

The Company has an effective tax rate which differs from the expected Canadian income tax rate. The differences are as follows:

	2000 $	1999 $
Statutory tax rate	44.62%	45%
Computed expected tax provision	874,372	6,565
Increase (decrease) resulting from:		
Resource allowance	(424,470)	(69,788)
Non-deductible depletion	–	21,232
Crown charges	235,138	107,400
ARTC	(31,330)	(30,370)
Other	(33,710)	–
Tax benefit of losses applied	–	(35,039)
Provision for future income taxes	620,000	–

At December 31, 2000, the Company had exploration and development costs, undepreciated capital costs, unamortized share issue costs and non-capital losses available for deduction against future taxable income of approximately $12,700,000 (1999 - $2,400,000) which have not been recognized in these consolidated financial statements.

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's future income tax assets and liabilities are as follows:

	2000 $
Net book value of capital assets in excess of tax pools	(2,209)
Tax loss carryforwards recognized	367
Site restoration	107
Share issue costs	100
Rate reduction from resource allowance	63
Royalty income	71
Future tax liability	(1,501)

9. EARNINGS AND CASH FLOW FROM OPERATIONS PER SHARE

	2000	1999
Net earnings per share		
Basic	$0.04	$0.00
Fully diluted	$0.04	$0.00
Cash flow from operations		
Basic	$0.10	$0.02
Fully diluted	$0.09	$0.02
Weighted average number of shares		
Basic	30,838,727	18,726,634
Fully diluted	36,906,233	19,694,634

The weighted average number of shares for fully diluted have been calculated assuming the exercise of the special warrants on their issue date and the conversion of the Class B shares at the beginning of the year, less repurchases during the year, using the fraction of $5.00 divided by $1.00 [see note 7(b)(iv)].

10. COMMITMENTS

Pursuant to agreements relating to operating leases for office premises and leases for office equipment, the Company is obligated to make the following future payments:

	$
2001	275,995
2002	295,127
2003	101,261
2004	1,041
	673,424

Pursuant to a natural gas sales supply contract, the Company is committed to supply 500 gigajoules per day of natural gas at $4.65 per gigajoule until March 31, 2001.

The Company has no financial commodity price contracts in place at December 31, 2000.

11. FINANCIAL INSTRUMENT

The Company is a party to certain off-balance sheet derivative financial instruments which have fixed the price of a portion of its natural gas production in gigajoules. The Company entered into this contract for hedging purposes only, in order to protect its future cash flow from the volatility of natural gas commodity prices.

Effective November 1, 2000 and expiring March 31, 2001, the Company purchased a natural gas put contract fixing a minimum natural gas price of $6.70 per gigajoule at AECO for 1,000 gigajoules of natural gas per day. The Company is required to pay $60,300 under the remaining term of the contract.

12. SUBSEQUENT EVENTS

(a) In February 2001, the Company had incurred all of the qualifying expenditures as required under the agreement with the Partnership [note 7(b)(vi)]. The Company issued 1,250,000 Class A Shares on February 27, 2001 and received $500,000 from funds held in trust as consideration for the shares on March 9, 2001.

In March 2001, the Company had incurred all of the qualifying expenditures as required under the agreement with Petrovest [note 7(b)(vi)]. The Company issued 588,235 Class A Shares on March 6, 2001 and received $250,000 from funds held in trust as consideration for the shares on March 13, 2001.

(b) On February 13, 2001, DBM and the Company were amalgamated, continuing under the name of Lexxor Energy Inc.

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

Lexxor expected 2000 to be a significant year in terms of growth and profitability and truly it was. Corporate acquisitions, successful development and exploratory drilling activities and strong product prices combined to produce record levels of production, revenues, cash flow and earnings.

QUARTERLY SUMMARY

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year 2000
FINANCIAL ($, except for share numbers)					
Petroleum and natural gas sales	522,375	990,270	1,659,148	3,460,093	**6,631,886**
Cash flow from operations	31,412	331,419	691,931	2,055,334	**3,110,096**
Per share - basic	0.00	0.01	0.02	0.05	**0.10**
Per share - fully diluted	0.00	0.1	0.02	0.05	**0.09**
Net earnings (loss)	(37,588)	140,432	406,418	830,334	**1,339,596**
Per share - basic	0.00	0.00	0.01	0.02	**0.04**
Per share - fully diluted	0.00	0.00	0.01	0.02	**0.04**
Capital expenditures and acquisitions (net)	166,202	4,622,443	2,358,561	6,377,565	**13,524,771**
Bank debt and working capital deficiency	2,449,944	3,979,638	4,379,989	4,637,957	**4,637,957**
OPERATIONS					
Production					
Oil and NGLs (Bbls/d)	77	124	166	473	**211**
Natural gas (Mcf/d)	994	1,508	2,036	2,216	**1,696**
Total Boe/d	243	375	506	843	**494**
Average Selling Price					
Oil and NGLs ($/Bbl)	$ 33.61	$ 38.14	$ 43.24	$ 43.62	**$ 41.77**
Natural gas ($/Mcf)	$ 3.17	$ 4.08	$ 5.33	$ 7.85	**$ 5.58**
Total production ($/Boe)	$ 23.66	$ 29.01	$ 35.67	$ 45.15	**$ 37.01**
Wells drilled					
Gross	2.0	1.0	11.0	4.0	**18.0**
Net	0.4	0.4	6.4	3.3	**10.5**
SHARE TRADING INFORMATION					
Canadian Venture Exchange: LXX.A					
High	0.50	0.30	0.39	0.45	**0.50**
Low	0.15	0.11	0.16	0.26	**0.11**
Close	0.19	0.20	0.38	0.35	**0.35**
Volume (000s)	1,454	1,445	1,506	2,137	**6,542**

CORPORATE INFORMATION

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Lexxor Energy Inc.

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Lexxor Energy Inc.

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Vice-President and Secretary Treasurer
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Carl M. Ravinsky
Solicitor
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Michael P. Stanton
Independent Geologist

Ronald J. Will (1) (2)
Investment Advisor
National Bank Financial

(1) Member of the Audit Committee
(2) Member of the Compensation Committee

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Douglas O. McNichol
President and Chief Operating Officer

J. Paul Lawrence
Vice-President, Finance and
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B. Cameron Dawes
Vice-President, Exploration

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STOCK EXCHANGE

CANADIAN VENTURE EXCHANGE
SYMBOL LXX.A

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